



## **THE BIG 5 FALSE BAY MUNICIPALITY**

**Annual Financial Statements  
for the year ended 30 June 2014**

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## General Information

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### Mayoral committee

Mayor

CC Gumede

Councillors

ZM Mokeona

MS Msane

NR Bukhosini

CT Khumalo

FZ Zulu

N Thethwayo

### Grading of local authority

Grade 1 - Low capacity

### Accounting Officer

AM Dhlomo

### Chief Finance Officer (CFO)

NN Shandu

### Business address

163 Zebra Street

Hluhluwe

3960

### Postal address

P.O BOX 89

Hluhluwe

3960

### Bankers

First National Bank of SA

### Auditors

The Auditor General South Africa

Private Bag X9034

3200

### Attorneys

Duvenage Incorporated

Old Main Road

Hluhluwe

3960

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
DBSA	Development Bank of South Africa
INEG	Integrated National Electrification Grant

# **The Big 5 False Bay Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Officer's Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and is given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for the loss of office, if any, as disclosed in notes of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Office Bearers Act and the Minister of Local Government's determination in accordance within this act.

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**AM Dhlomo**  
**Accounting Officer**

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	5	90,752	419,343
Receivables from non-exchange transactions	6	4,597,164	-
VAT receivable	7	889,504	1,310,394
Consumer debtors	8	10,099,140	7,209,915
Cash, cash and equivalents	9	558,094	592,873
		<b>16,234,654</b>	<b>9,532,525</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	3	106,295,847	100,675,022
Intangible assets	4	90,423	173,499
		<b>106,386,270</b>	<b>100,848,521</b>
<b>Total Assets</b>		<b>122,620,924</b>	<b>110,381,046</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	10	548,826	435,131
Payables from exchange transactions	13	10,098,823	11,197,593
Payables from non-exchange transactions	14	213,115	77,873
Unspent conditional grants and receipts	11	1,549,908	-
Bank overdraft	9	1,912,628	-
		<b>14,323,300</b>	<b>11,710,597</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	10	244,076	792,155
Provisions	12	4,737,925	4,366,751
		<b>4,982,001</b>	<b>5,158,906</b>
<b>Total Liabilities</b>		<b>19,305,301</b>	<b>16,869,503</b>
<b>Net Assets</b>		<b>103,315,623</b>	<b>93,511,543</b>
Accumulated surplus		103,315,623	93,511,543

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	17	1,368,236	1,077,816
Rental of facilities and equipment		70,921	79,056
Other income		147,886	197,764
Interest received - investment		376,773	178,241
<b>Total revenue from exchange transactions</b>		<b>1,963,816</b>	<b>1,532,877</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	16	9,109,533	6,525,214
Property rates - penalties imposed	16	865,823	846,414
<b>Transfer revenue</b>			
Government grants and subsidies		30,020,092	30,163,024
Fines		10,019,750	29,900
<b>Total revenue from non-exchange transactions</b>		<b>50,015,198</b>	<b>37,564,552</b>
		1,963,816	1,532,877
		50,015,198	37,564,552
<b>Total revenue</b>	15	<b>51,979,014</b>	<b>39,097,429</b>
<b>Expenditure</b>			
Employee related costs	20	12,578,041	9,813,874
Remuneration of councillors	21	1,707,472	1,416,371
Depreciation and amortisation	24	3,241,550	3,232,999
Impairment loss	25	123	69,859
Finance costs	26	608,966	404,659
Debt impairment	22	6,136,826	2,248,782
Repairs and maintenance		133,150	168,631
Contracted services	28	881,889	902,843
Conditional Grants (operational)	29	3,857,172	4,374,576
General Expenses	19	13,029,748	11,076,480
<b>Total expenditure</b>		<b>42,174,937</b>	<b>33,709,074</b>
<b>Surplus for the year</b>		<b>9,804,077</b>	<b>5,388,355</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	88,053,088	88,053,088
Adjustments		
Correction of errors, refer to note 33	70,100	70,100
<b>Balance at 01 July 2012 as restated</b>	<b>88,123,188</b>	<b>88,123,188</b>
Changes in net assets		
Restated surplus for the year	5,388,355	5,388,355
Total changes	5,388,355	5,388,355
<b>Balance at 01 July 2013</b>	<b>93,511,546</b>	<b>93,511,546</b>
Changes in net assets		
Surplus for the year	9,804,077	9,804,077
Total changes	9,804,077	9,804,077
<b>Balance at 30 June 2014</b>	<b>103,315,623</b>	<b>103,315,623</b>



# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Cash receipts from ratepayers, government grants and other		44,366,667	35,826,465
Interest income		376,773	178,241
<b>Payments</b>			
Cash paid to suppliers and employees		(38,400,972)	(23,357,899)
Finance costs		(608,966)	(404,659)
		(39,009,938)	(23,762,558)
Total receipts		44,743,440	36,004,706
Total payments		(39,009,938)	(23,762,558)
<b>Net cash flows from operating activities</b>	30	<b>5,733,502</b>	<b>12,242,148</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(8,791,333)	(10,694,168)
Purchase of other intangible assets	4	(5,100)	(72,554)
<b>Net cash flows from investing activities</b>		<b>(8,796,433)</b>	<b>(10,766,722)</b>
<b>Cash flows from financing activities</b>			
Movement in Unspent conditional Grant		1,549,908	(3,499,024)
Movement in finance leases		(434,384)	1,227,286
<b>Net cash flows from financing activities</b>		<b>1,115,524</b>	<b>(2,271,738)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(1,947,407)</b>	<b>(796,312)</b>
Cash and cash equivalents at the beginning of the year		592,873	1,389,185
<b>Cash and cash equivalents at the end of the year</b>	9	<b>(1,354,534)</b>	<b>592,873</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	1,303,000	169,000	<b>1,472,000</b>	1,368,236	<b>(103,764)</b>	Appendix F
Rental of facilities and equipment	100,000	-	<b>100,000</b>	70,921	<b>(29,079)</b>	Appendix F
Other income	200,000	(100,000)	<b>100,000</b>	147,886	<b>47,886</b>	Appendix F
Interest received - investment	200,000	(100,000)	<b>100,000</b>	376,773	<b>276,773</b>	Appendix F
<b>Total revenue from exchange transactions</b>	<b>1,803,000</b>	<b>(31,000)</b>	<b>1,772,000</b>	<b>1,963,816</b>	<b>191,816</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	6,829,000	2,330,000	<b>9,159,000</b>	9,109,533	<b>(49,467)</b>	Appendix F
Property rates - penalties imposed	700,000	-	<b>700,000</b>	865,823	<b>165,823</b>	Appendix F
Government grants and subsidies	25,645,000	(5,000,000)	<b>20,645,000</b>	30,020,092	<b>9,375,092</b>	

##### Transfer revenue

Fines	3,600,000	(1,750,000)	<b>1,850,000</b>	10,019,750	<b>8,169,750</b>	Appendix F
Sale on property, plant and	4,200,000	(400,000)	<b>3,800,000</b>	-	<b>(3,800,000)</b>	Appendix F

<b>Total revenue from non-exchange transactions</b>	<b>40,974,000</b>	<b>(4,820,000)</b>	<b>36,154,000</b>	<b>50,015,198</b>	<b>13,861,198</b>	
'Total revenue from exchange transactions'	1,803,000	(31,000)	<b>1,772,000</b>	1,963,816	<b>191,816</b>	Appendix F
'Total revenue from non-exchange transactions'	40,974,000	(4,820,000)	<b>36,154,000</b>	50,015,198	<b>13,861,198</b>	Appendix F
<b>Total revenue</b>	<b>42,777,000</b>	<b>(4,851,000)</b>	<b>37,926,000</b>	<b>51,979,014</b>	<b>14,053,014</b>	

#### Expenditure

Employee related costs	(14,333,000)	534,000	<b>(13,799,000)</b>	(12,578,041)	<b>1,220,959</b>	Appendix F
Remuneration of councillors	(1,646,000)	(12,000)	<b>(1,658,000)</b>	(1,707,472)	<b>(49,472)</b>	Appendix F
Depreciation and amortisation	(3,000,000)	-	<b>(3,000,000)</b>	(3,241,550)	<b>(241,550)</b>	Appendix F
Impairment loss	-	-	-	(123)	<b>(123)</b>	Appendix F
Finance costs	(300,000)	189,000	<b>(111,000)</b>	(608,966)	<b>(497,966)</b>	Appendix F
Debt impairment	(3,500,000)	-	<b>(3,500,000)</b>	(6,136,826)	<b>(2,636,826)</b>	Appendix F
Repairs and maintenance	(1,350,000)	300,000	<b>(1,050,000)</b>	(133,150)	<b>916,850</b>	Appendix F
Contracted Services	(11,272,000)	4,730,000	<b>(6,542,000)</b>	(881,889)	<b>5,660,111</b>	Appendix F
Conditional Grant (operational)	-	-	-	(3,857,172)	<b>(3,857,172)</b>	Appendix F
General Expenses	(7,115,000)	(1,050,000)	<b>(8,165,000)</b>	(13,029,748)	<b>(4,864,748)</b>	Appendix F
<b>Total expenditure</b>	<b>(42,516,000)</b>	<b>4,691,000</b>	<b>(37,825,000)</b>	<b>(42,174,937)</b>	<b>(4,349,937)</b>	
<b>Surplus for the year</b>	<b>261,000</b>	<b>(160,000)</b>	<b>101,000</b>	<b>9,804,077</b>	<b>9,703,077</b>	

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Receivables from exchange transactions	1,154,000	-	1,154,000	90,753	(1,063,247)	Appendix F
Receivables from non-exchange transactions	-	-	-	4,597,164	4,597,164	Appendix F
VAT receivable	-	-	-	889,504	889,504	Appendix F
Consumer debtors	5,800,000	1,224,000	7,024,000	10,099,140	3,075,140	Appendix F
Cash, cash and equivalents	2,416,000	(643,000)	1,773,000	558,094	(1,214,906)	Appendix F
	<b>9,370,000</b>	<b>581,000</b>	<b>9,951,000</b>	<b>16,234,655</b>	<b>6,283,655</b>	

##### Non-Current Assets

Property, plant and equipment	102,666,000	6,109,000	108,775,000	106,295,847	(2,479,153)	Appendix F
Intangible assets	257,000	(84,000)	173,000	90,423	(82,577)	Appendix F
	<b>102,923,000</b>	<b>6,025,000</b>	<b>108,948,000</b>	<b>106,386,270</b>	<b>(2,561,730)</b>	
Current Assets	9,370,000	581,000	9,951,000	16,234,655	6,283,655	Appendix F
Non-Current Assets	102,923,000	6,025,000	108,948,000	106,386,270	(2,561,730)	Appendix F
<b>Total Assets</b>	<b>112,293,000</b>	<b>6,606,000</b>	<b>118,899,000</b>	<b>122,620,925</b>	<b>3,721,925</b>	

#### Liabilities

##### Current Liabilities

Finance lease obligation	-	-	-	548,826	548,826	Appendix F
Payables from exchange transactions	4,806,000	6,540,000	11,346,000	10,098,823	(1,247,177)	Appendix F
Taxes and transfers payable (non-exchange)	-	-	-	213,115	213,115	Appendix F
Unspent conditional grants and receipts	-	-	-	1,549,908	1,549,908	Appendix F
Provisions	2,309,000	(1,938,000)	371,000	-	(371,000)	Appendix F
Bank overdraft	-	-	-	1,912,628	1,912,628	Appendix F
	<b>7,115,000</b>	<b>4,602,000</b>	<b>11,717,000</b>	<b>14,323,300</b>	<b>2,606,300</b>	

##### Non-Current Liabilities

Finance lease obligation	-	-	-	244,076	244,076	Appendix F
Provisions	2,283,000	1,713,000	3,996,000	4,737,925	741,925	Appendix F
	<b>2,283,000</b>	<b>1,713,000</b>	<b>3,996,000</b>	<b>4,982,001</b>	<b>986,001</b>	

##### Total Liabilities

	<b>9,398,000</b>	<b>6,315,000</b>	<b>15,713,000</b>	<b>19,305,301</b>	<b>3,592,301</b>	
Assets	112,293,000	6,606,000	118,899,000	122,620,925	3,721,925	Appendix F
Liabilities	(9,398,000)	(6,315,000)	(15,713,000)	(19,305,301)	(3,592,301)	Appendix F
<b>Net Assets</b>	<b>102,895,000</b>	<b>291,000</b>	<b>103,186,000</b>	<b>103,315,624</b>	<b>129,624</b>	

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1. Basis of presentation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 34 Changes in accounting policy.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

##### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

##### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

##### VAT

VAT Receivable is the Net Receivable from all VAT Control Account.

Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Roads and paving	30
Buildings	30
Pedestrian Malls	30
Electricity	10 - 50
Furniture and fixtures	7 - 10
Motor vehicles	
• Specialist vehicles	7 - 10
• Other vehicle	5 - 7

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

Office equipment	3 - 7
Watercraft	15
Recreational facilities	20 - 30
Bins and containers	5
Specialised and plant and equipment	7 - 15
Other items of plant and machinery	2 - 5
Landfill sites	20

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

# The Big 5 False Bay Municipality

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### 1.5 Intangible assets (continued)

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	2 - 5years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

# The Big 5 False Bay Municipality

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### 1.6 Financial instruments (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.



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## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility in the case of a financial asset.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

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Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.6 Financial instruments (continued)

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

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## Accounting Policies

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### 1.7 Leases (continued)

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. However, if the lease term has expired the actual amount incurred is recognised as an expense and commitments will be one years worth of expenditure estimated from the current information available.

### 1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.8 Impairment of cash-generating assets (continued)

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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### 1.8 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.9 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.9 Impairment of non-cash-generating assets (continued)

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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### 1.10 Employee benefits

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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Annual Financial Statements for the year ended 30 June 2014

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### 1.10 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).



# The Big 5 False Bay Municipality

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### 1.10 Employee benefits (continued)

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.11 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.8 and 1.9.
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.12 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

### 1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.13 Revenue from non-exchange transactions (continued)

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Collection charges and penalties

Collection charges and penalty interest is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with the relevant legal requirements (if applicable).

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by debtors.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the municipality.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.13 Revenue from non-exchange transactions (continued)

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

#### Services in-kind

Services in-kind are not recognised.

#### Concessionary loans received

A concessionary loan is a loan granted to or received by an property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

### 1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.15 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 34 for details

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.21 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.22 Budget information

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2013 to 30/06/2014.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.23 Related parties (continued)

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.24 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

### 1.25 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

### 1.26 Going concern assumption

These annual financial statement have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.27 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.



# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

##### **GRAP 25: Employee benefits**

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

##### **GRAP 1 (as revised 2012): Presentation of Financial Statements**

Minor amendments were made to the statement of financial performance as well as the statement of changes in net assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

##### **GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors**

Amendments were made to changes in accounting policies. A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that a standard of GRAP would otherwise require or permit to be measured at fair value is no longer considered to be a change in an accounting policy in terms of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### **GRAP 9 (as revised 2012): Revenue from Exchange Transactions**

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 13 (as revised 2012): Leases**

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 17 (as revised 2012): Property, Plant and Equipment**

Amendments were made to measurement at recognition, disposals and disclosure. Changes were made to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the requirement to disclose property, plant and equipment that were temporarily idle has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Paragraphs .07, .08, .19, .22, .23, .37, .38, .40, .45 and .46 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Recognition and measurement and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Changes made comprise 3 areas that can be summarised as follows:

- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **IGRAP16: Intangible assets website costs**

The interpretation deals with the treatment of the municipality's own website. It concludes that the municipality's own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets.

A website arising from development will be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in the Standard of GRAP on Intangible Assets for recognition and initial measurement, the municipality can satisfy the requirements in paragraph .54, which in particular requires the municipality to be able to demonstrate how its website will generate probable future economic benefits or service potential.

If the municipality is not able to demonstrate how a website developed solely and primarily for providing information about its own products and services will generate probable future economic benefits or service potential, all expenditure on developing such a website will be recognised as an expense when incurred.

A website that is recognised as an intangible asset under this interpretation will be measured after initial recognition by applying the requirements in the Standard of GRAP on Intangible Assets.

Interpretation to be applied retrospectively

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue**

This Interpretation of the Standards of GRAP now addresses the manner in which an entity applies the probability test on initial recognition of both:

(a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions and

(b) non-exchange revenue in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 3. Property, plant and equipment

	2014			Restated 2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	24,340,400	-	24,340,400	24,340,400	-	24,340,400
Buildings	48,179,080	(5,858,131)	42,320,949	41,274,489	(4,446,985)	36,827,504
Furniture and fixtures	302,393	(182,435)	119,958	332,588	(167,995)	164,593
Motor vehicles	2,847,495	(1,610,603)	1,236,892	2,847,495	(1,357,343)	1,490,152
Office equipment	1,074,080	(804,566)	269,514	1,059,183	(710,175)	349,008
IT equipment	923,079	(565,953)	357,126	830,912	(492,823)	338,089
Infrastructure	27,316,336	(6,714,974)	20,601,362	27,316,336	(5,510,032)	21,806,304
Community	8,000	(3,201)	4,799	8,000	(2,934)	5,066
Assets under construction	17,044,847	-	17,044,847	15,353,906	-	15,353,906
<b>Total</b>	<b>122,035,710</b>	<b>(15,739,863)</b>	<b>106,295,847</b>	<b>113,363,309</b>	<b>(12,688,287)</b>	<b>100,675,022</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Newly identified assets	Disposals / Assets written off	Transfers	Depreciation	Impairment loss	Total
Land	24,340,400	-	-	-	-	-	-	24,340,400
Buildings	36,827,504	280,031	-	-	6,624,561	(1,411,147)	-	42,320,949
Furniture and fixtures	164,593	6,550	1,459	(6,854)	-	(45,790)	-	119,958
Motor vehicles	1,490,152	-	-	-	-	(253,260)	-	1,236,892
Office equipment	349,008	15,696	30,097	(6,737)	-	(118,550)	-	269,514
IT equipment	338,089	120,978	21,020	(2,826)	-	(120,012)	(123)	357,126
Infrastructure	21,806,304	-	-	-	-	(1,204,942)	-	20,601,362
Community	5,066	-	-	-	-	(267)	-	4,799
Assets under construction	15,353,906	8,315,502	-	-	(6,624,561)	-	-	17,044,847
	<b>100,675,022</b>	<b>8,738,757</b>	<b>52,576</b>	<b>(16,417)</b>	<b>-</b>	<b>(3,153,968)</b>	<b>(123)</b>	<b>106,295,847</b>

#### Reconciliation of property, plant and equipment - 2013

	Restated opening balance	Additions	Disposals / Assets written off	Transfers	Depreciation	Impairment loss	Total
Land	24,340,400	-	-	-	-	-	24,340,400
Buildings	35,804,617	255,803	-	2,076,550	(1,309,466)	-	36,827,504
Furniture and fixtures	323,792	1,754	(83,821)	-	(72,938)	(4,194)	164,593
Motor vehicles	415,762	1,363,411	-	-	(289,021)	-	1,490,152
Office equipment	614,895	17,674	(93,814)	-	(168,649)	(21,098)	349,008
IT equipment	583,481	98,366	(135,778)	-	(163,413)	(44,567)	338,089
Infrastructure	22,945,404	-	-	-	(1,139,100)	-	21,806,304
Community	5,333	-	-	-	(267)	-	5,066
Assets under construction	8,473,296	8,957,160	-	(2,076,550)	-	-	15,353,906
	<b>93,506,980</b>	<b>10,694,168</b>	<b>(313,413)</b>	<b>-</b>	<b>(3,142,854)</b>	<b>(69,859)</b>	<b>100,675,022</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 4. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	530,875	(440,452)	90,423	533,599	(360,100)	173,499

#### Reconciliation of intangible assets - 2014

	Opening balance	Additions	Disposals / Assets written off	Amortisation	Total
Computer software, other	173,499	5,100	(594)	(87,582)	90,423

#### Reconciliation of intangible assets - 2013

	Opening balance	Additions	Disposals / Assets written off	Amortisation	Total
Computer software, other	313,514	72,554	(122,423)	(90,146)	173,499

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 5. Receivables from exchange transactions

Consumer debtors - Rentals	7,749	271,157
Prepaid expenses	54,687	130,594
Sundry debtors	28,316	17,592
	<b>90,752</b>	<b>419,343</b>

### 6. Receivables from non-exchange transactions

Fines	4,597,164	-
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#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Provision for impairment	4,540,689	-
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### 7. VAT receivable

VAT	889,504	1,310,394
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# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>8. Consumer debtors</b>		
<b>Gross balances</b>		
Consumer debtors	15,207,978	11,427,973
<b>Less: Allowance for impairment</b>		
Consumer debtors	(5,108,838)	(4,218,058)
<b>Net balance</b>		
Consumer debtors	10,099,140	7,209,915
<b>Summary of debtors by customer classification</b>		
<b>Consumers and place of worship</b>		
Current (0 -30 days)	219,901	301,649
31 - 60 days	213,656	174,458
61 - 90 days	201,765	165,260
91 - 120 days	199,586	213,235
121 - 150 days	126,181	105,635
> 151 days	6,126,145	4,445,360
	7,087,234	5,405,597
Less: Allowance for impairment	(3,547,912)	(2,423,430)
	<b>3,539,322</b>	<b>2,982,167</b>
<b>Agriculture and Commercial</b>		
Current (0 -30 days)	499,870	604,512
31 - 60 days	350,317	227,064
61 - 90 days	289,564	196,321
91 - 120 days	272,201	223,988
121 - 150 days	205,733	139,154
> 151 days	4,861,741	3,127,955
	6,479,426	4,518,994
Less: Allowance for impairment	(1,811,741)	(1,794,629)
	<b>4,667,685</b>	<b>2,724,365</b>
<b>National and provincial government</b>		
Current (0 -30 days)	39,271	63,186
31 - 60 days	62,588	31,028
61 - 90 days	58,326	30,687
91 - 120 days	56,031	30,794
121 - 150 days	47,933	30,316
> 151 days	1,377,166	1,317,373
	<b>1,641,315</b>	<b>1,503,384</b>
<b>Total</b>		
Current (0 -30 days)	759,042	969,347
31 - 60 days	626,561	432,550
61 - 90 days	549,656	392,267
91 - 120 days	527,819	468,017
121 - 365 days	279,846	275,104
> 365 days	12,465,053	8,890,688
	15,207,977	11,427,973
Less: Allowance for impairment	(5,108,837)	(4,218,058)
	<b>10,099,140</b>	<b>7,209,915</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 8. Consumer debtors (continued)

#### Reconciliation of allowance for impairment

Balance at beginning of the year	(4,218,058)	(1,969,277)
Contributions to allowance	(890,780)	(2,248,781)
	<b>(5,108,838)</b>	<b>(4,218,058)</b>

### 9. Cash, cash and equivalents

Cash and cash equivalents consist of:

Cash on hand	1,990	-
Primary bank account	-	6,403
Call account	332,239	15,723
Other bank balances	170,037	23,189
Short Term Investment	53,828	547,558
Bank overdraft	(1,912,628)	-
	<b>(1,354,534)</b>	<b>592,873</b>
Current assets	558,094	592,873
Current liabilities	(1,912,628)	-
	<b>(1,354,534)</b>	<b>592,873</b>

#### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
Cash on hand	1,990	-	689	1,990	-	689
First National Bank (Primary bank account) - 62022340385	(1,912,628)	6,403	72,096	(1,912,628)	6,403	72,096
First National Bank (Primary bank account) - 62075347396	170,037	14,199	132,421	170,037	14,199	132,421
First National Bank (Primary bank account) - 62214360068	332,239	15,723	153,380	332,239	15,723	153,380
First National Bank (Primary bank account) - 62191984949	-	345	48,890	-	345	48,890
First National Bank (Primary bank account) - 62196695533	-	4,673	313,296	-	4,673	313,296
First National Bank (Primary bank account) - 62174958276	-	3,972	30,549	-	3,972	30,549
ABSA Bank (Short Term Investment) - 9109586760	53,828	547,558	637,864	53,828	547,558	637,864
<b>Total</b>	<b>(1,354,534)</b>	<b>592,873</b>	<b>1,389,185</b>	<b>(1,354,534)</b>	<b>592,873</b>	<b>1,389,185</b>



# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>10. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	548,826	435,131
- in second to fifth year inclusive	244,076	792,155
<b>Present value of minimum lease payments</b>	<b>792,902</b>	<b>1,227,286</b>
<b>Present value of minimum lease payments due</b>		
- within one year	548,826	435,131
- in second to fifth year inclusive	244,076	792,155
	<b>792,902</b>	<b>1,227,286</b>
Non-current liabilities	244,076	792,155
Current liabilities	548,826	435,131
	<b>792,902</b>	<b>1,227,286</b>

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 11% (2013: 10%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

### 11. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

#### Unspent conditional grants and receipts

MIG Grants	1,406,944	-
Integrated Development Plan Grant	142,964	-
	<b>1,549,908</b>	<b>-</b>

### 12. Provisions

#### Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Land fill site Provision	4,366,751	371,174	4,737,925

#### Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Land fill site Provision	4,024,655	342,096	4,366,751

The provision for rehabilitation of landfill site relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at 10.5%, over an average period of 20 years.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>13. Payables from exchange transactions</b>		
Other creditors	850,660	523,573
Provision for leave pay	1,223,490	825,160
Retention	1,190,808	890,511
Site deposit	2,513,925	2,533,960
Trade payables	4,014,413	6,423,271
Unallocated deposits	1,118	1,118
13th cheque accrual	304,409	-
	<b>10,098,823</b>	<b>11,197,593</b>
<b>14. Payables from non-exchange transactions</b>		
Deposits received	3,529	5,439
Debtors paid in advance	209,586	72,434
	<b>213,115</b>	<b>77,873</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>15. Revenue</b>		
Service charges	1,368,236	1,077,816
Rental of facilities and equipment	70,921	79,056
Other income	147,886	197,764
Interest received - investment	376,773	178,241
Property rates	9,109,533	6,525,214
Property rates - penalties imposed	865,823	846,414
Government grants and subsidies	30,020,092	30,163,024
Fines	10,019,750	29,900
	<b>51,979,014</b>	<b>39,097,429</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	1,368,236	1,077,816
Rental of facilities and equipment	70,921	79,056
Other income	147,886	197,764
Interest received - investment	376,773	178,241
	<b>1,963,816</b>	<b>1,532,877</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	9,109,533	6,525,214
Property rates - penalties imposed	865,823	846,414
<b>Transfer revenue</b>		
Government grants and subsidies	30,020,092	30,163,024
Fines	10,019,750	29,900
	<b>50,015,198</b>	<b>37,564,552</b>
<b>16. Property rates</b>		
<b>Rates received</b>		
Residential	9,109,533	6,525,214
	9,109,533	6,525,214
Property rates - penalties imposed	865,823	846,414
	<b>9,975,356</b>	<b>7,371,628</b>
<b>17. Service charges</b>		
Refuse removal	1,368,236	1,077,816

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>18. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	17,275,000	14,141,000
Financial Management Grant	1,650,000	1,500,000
Municipal Systems Improvement Grant	890,000	800,000
Sport and Recreation Grant	-	254,770
Library Grant	630,000	600,000
INEG (Electrification Program Grant)	-	2,700,440
Intergrated Development Plan Grant	57,036	-
	<u>20,502,036</u>	<u>19,996,210</u>
<b>Capital grants</b>		
Municipal Infrastructure Grant	9,518,056	10,166,814
	<u>9,518,056</u>	<u>10,166,814</u>
	<b><u>30,020,092</u></b>	<b><u>30,163,024</u></b>
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	-	693,814
Current-year receipts	10,925,000	11,202,000
Conditions met - transferred to revenue	(9,518,056)	(10,166,814)
Transfer to Equitable Share	-	(1,729,000)
	<u><b>1,406,944</b></u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 11).		
<b>Financial Management Grant</b>		
Current-year receipts	1,650,000	1,500,000
Conditions met - transferred to revenue	(1,650,000)	(1,500,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 11).		
<b>Municipal Systems Improvement Grant</b>		
Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(800,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 11).		
<b>Municipal Assistance Programme Grant</b>		
Conditions still to be met - remain liabilities (see note 11).		

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 18. Government grants and subsidies (continued)

#### Sports and Recreation Grant

Balance unspent at beginning of year	-	104,770
Current-year receipts	-	150,000
Conditions met - transferred to revenue	-	(254,770)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 11).

#### Library Grant

Current-year receipts	630,000	600,000
Conditions met - transferred to revenue	(630,000)	(600,000)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 11).

#### INEG - Electrification Programme Grant

Balance unspent at beginning of year	-	2,700,440
Conditions met - transferred to revenue	-	(2,700,440)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 11).

#### Integrated Development Plan Grant

Current-year receipts	200,000	-
Conditions met - transferred to revenue	(57,036)	-
	<u>142,964</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 11).

Provide explanations of conditions still to be met and other relevant information.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>19. General expenses</b>		
Publicity	253,312	239,954
Audit remuneration	1,592,735	1,478,038
Bank charges	69,923	37,219
Consumables	22,751	11,710
Upliftment programme	10,790	75,594
Audit committee	224,949	160,494
Entertainment	37,270	87,431
Insurance	104,185	11,217
Legal fees	33,590	102,572
Computer expenses	424,159	337,093
Plotter maps	-	20,812
Lease rentals on operating lease	923,797	1,554,171
Scrapping loss	17,011	435,837
Disaster management	984,362	984,362
Fuel and oil	374,135	312,644
Courier and postage	164,422	205,799
Group life	372,660	380,461
License fees - vehicles	61,972	106,898
Security	2,315,801	1,844,215
Sport and recreation	4,500	49,321
Subscriptions and membership fees	526	450,000
Telephone and fax	308,037	340,392
Training	320,297	494,116
Local travel and subsistence	712,533	709,567
Minor assets	40,536	13,562
Electricity	333,648	321,322
Uniforms	22,657	9,055
Events and social projects	214,899	187,972
Bursaries	35,354	15,000
Council support	4,000	7,500
Consultant fees	636,265	-
Other expenses	2,408,672	92,152
	<b>13,029,748</b>	<b>11,076,480</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>20. Employee related costs</b>		
Basic	9,925,743	7,890,897
Bonus	449,667	327,863
Medical aid and pension - company contributions	1,506,968	818,465
UIF	70,443	56,101
SDL	103,070	82,578
Leave pay provision charge	501,737	466,956
Overtime payments	-	153,383
SALBC	20,413	17,631
	<b>12,578,041</b>	<b>9,813,874</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	679,833	613,792
Car Allowance	120,000	120,000
Contributions to UIF, Medical and Pension Funds	9,591	8,859
	<b>809,424</b>	<b>742,651</b>
<b>Remuneration of chief financial officer</b>		
Annual Remuneration	549,794	507,364
Car Allowance	170,056	145,827
Contributions to UIF, Medical and Pension Funds	8,643	8,239
	<b>728,493</b>	<b>661,430</b>
<b>Remuneration of planning and technical director</b>		
Annual Remuneration	-	366,778
Car Allowance	-	121,310
Contributions to UIF, Medical and Pension Funds	-	6,359
	<b>-</b>	<b>494,447</b>
<b>Remuneration of corporate services director</b>		
Annual Remuneration	719,850	647,191
Car Allowance	-	6,000
Contributions to UIF, Medical and Pension Funds	8,983	8,430
	<b>728,833</b>	<b>661,621</b>
<b>Remuneration of director community services</b>		
Annual Remuneration	531,794	357,982
Car Allowance	188,056	137,327
Contributions to UIF, Medical and Pension Funds	8,643	6,044
	<b>728,493</b>	<b>501,353</b>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>21. Remuneration of councillors</b>		
Mayor	362,823	321,739
Chairperson of Section 79 Committee	308,193	-
Councillors	1,036,456	1,094,632
	<b>1,707,472</b>	<b>1,416,371</b>
<b>In-kind benefits</b>		
The Mayor is provided with an office and secretarial support at the cost of the Council.		
The Mayor has use of a Council owned vehicle for official duties.		
The Mayor has two full-time bodyguards.		
<b>22. Debt impairment</b>		
Debt impairment	6,136,826	2,248,782
<b>23. Interest earned</b>		
<b>Interest revenue</b>		
External investments	376,773	178,241
<b>24. Depreciation and amortisation</b>		
Property, plant and equipment	3,153,968	3,142,853
Intangible assets	87,582	90,146
	<b>3,241,550</b>	<b>3,232,999</b>
<b>25. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	123	69,859
The main classes of assets affected by impairment losses are:		
PPE - IT Equipment		
The main events and circumstances that led to the recognition of these impairment losses are as follows:		
The carrying value was compared to recoverable amount of the IT Equipment		
<b>26. Finance costs</b>		
Interest paid	112,864	62,563
Discounting factor on provisions	496,102	342,096
	<b>608,966</b>	<b>404,659</b>
<b>27. Auditors' remuneration</b>		
Fees	1,592,735	1,478,038
<b>28. Contracted services</b>		
Other Contractors	881,889	902,843



# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>29. Conditional Grants (operational)</b>		
<b>Other subsidies</b>		
Library Grant expenditure	399,242	300,103
Municipal System Improvement Grant	885,514	776,011
Financial Management Grant	1,835,638	789,665
Sport and Recreation expenditure	166,603	139,990
INEG (Electrification Programme Grant)	570,175	2,368,807
	<b>3,857,172</b>	<b>4,374,576</b>
<b>30. Cash generated from operations</b>		
Surplus	9,804,077	5,388,355
<b>Adjustments for:</b>		
Depreciation and amortisation	3,241,550	3,232,999
Finance costs - Finance leases	608,966	404,659
Impairment loss	123	69,859
Movements in provisions	371,174	342,096
Investment income	(376,773)	(178,240)
Other non-cash items	(232,194)	(226,415)
Scrapping loss	17,011	435,836
Receivables from exchange transactions	328,594	-
Consumer debtors	(2,889,224)	(843,942)
Other receivables from non-exchange transactions	(4,597,164)	-
Payables from exchange transactions	(1,098,770)	3,172,260
VAT	420,890	444,681
Taxes and transfers payable (non exchange)	135,242	-
	<b>5,733,502</b>	<b>12,242,148</b>
<b>31. Commitments</b>		
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	661,879	594,565
- in second to fifth year inclusive	-	661,879
	<b>661,879</b>	<b>1,256,444</b>

Operating lease payments represent rentals payable by the municipality for certain of its photocopying machines. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable. The lease payments are recognised as an expense in the statement of financial performance over the lease term on a straight-line basis.

### 32. Related parties

Relationships

Members of key management. Refer to notes 20 and 21.

#### Related party transactions

There were no related party transactions that occurred during the financial year.

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 33. Prior period errors

Adjustments were made for the following reasons:

Property, Plant and Equipment was adjusted with the movement from Asset under construction to Building.

Trade and other payables was adjusted with amount which was not allotted to any creditor for more than 3 years

The correction of the errors results in adjustments as follows:

#### Statement of financial position

Property, plant and equipment - Buildings	2,074,273
Property, plant and equipment - Assets under construction	(2,076,550)
Property, plant and equipment - Accumulated depreciation buildings	(2,277)
Payables from exchange transactions	(70,100)

#### Statement of Financial Performance

Depreciation	2,277
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### 34. Comparative figures

Budget information in accordance with GRAP 1 and 24, has been provided in the statement of appropriation to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

The effects of the reclassification are as follows:

#### Property, plant equipment

Previously disclosure	100,677,299
Correction of depreciation	(2,277)
Restated balance	<u>100,675,022</u>

#### Payables from exchange transactions

Previous disclosure	11,345,570
Correction of accrued expense	(70,100)
Reclassification - payables from non-exchange transactions	(77,875)
Restated balance	<u>11,197,597</u>

#### Payables from non-exchange transactions

Previous disclosure	-
Reclassification - payables from exchange transactions	77,875
Restated balance	<u>77,875</u>

#### Current provision

Previous disclosure	371,174
Reclassification from non-correct provision	(371,174)
Restated balance	<u>-</u>

#### Non-current provision

Previous disclosure	3,995,577
Reclassification from current provision	371,174
Restated balance	<u>4,366,751</u>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 34. Comparative figures (continued)

#### Depreciation

Previous disclosure		3,230,723
Accumulated depreciation		<u>2,276</u>
Restated balance		<u>3,232,999</u>

### 35. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

### 36. Going concern

The Municipality will be financially viable in the 2014/15 financial year. Unspent conditional Grants will be banked on a separate bank account as per the provision of Division Of Revenue Act. In the adjusted budget the Municipality will make a provision for previous years unspent provisional grants.

### 37. Events after the reporting date

There were no reportable events after the reporting date.

### 38. Unauthorised expenditure

Opening balance	1,711,806	5,056,633
Unspent conditional grant not cash back	1,217,669	9,235,770
Over expenditure in current year	4,349,937	-
Condoned by Council	(7,279,412)	(12,580,597)
	<u>-</u>	<u>1,711,806</u>

# The Big 5 False Bay Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 39. Fruitless and wasteful expenditure

Opening balance	523,684	109,593
Interest paid	178,122	141,921
Gestetner and Canon	292,177	385,590
Condoned by Council	-	(113,420)
	<b>993,983</b>	<b>523,684</b>

Fruitless and wasteful expenditure incurred in related to the follow:

- Interest and penalties on late payments.
- Payment to Gestetner and Canon for machines under operating lease which are out of order.

### 40. Irregular expenditure

Opening balance	180,200	3,301,791
Suppliers in the services of state	170,000	34,850
Expired contracts - Current year	48,120	145,350
No contract	41,464	-
No formal SCM	59,079	-
No formal quotation	40,430	-
False declaration of interest	3,000	-
Less: Amounts condoned	-	(3,301,791)
	<b>542,293</b>	<b>180,200</b>

### 41. Capital Commitments

#### Approved but not yet contracted for

- Property Plant and Equipment	8,132,495	10,925,000
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#### Contracts entered into

- Property Plant and Equipment	3,023,505	-
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#### The above capital expenditure will be financed from:

- Government Grants	11,156,000	10,925,000
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### 42. MFMA Compulsory Disclosure

#### In terms of MFMA section 125(1)©

SARS amount due	543,183
Medical aid contributions due	82,125
Pension contributions due	185,093
Auditor general amount due	775,557
SALGA contributions due	450,600
	<b>2,036,558</b>

#### Non-Compliance with the Act

- Non-Tabling of Annual Report within 7 months
- Irregular and fruitless expenditure not submitted to MEC
- Non-payment of creditors within 30 days
- Non-performance evaluation of functions funded by Grants

### 43. Change in accounting policy

Changes in accounting policies were due in IGRAP 1 regarding fines. It requires prospective application of the standard.

# THE BIG 5 FALSE BAY MUNICIPALITY

## SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2014

### APPENDIX A

	Loan Number	Redeemable	Balance at 30 June 2013	Received during the period	Redeemed/ written off during the period	Balance at 30 June 2014	Carrying Value of Property, Plant & Equipment
<b>LEASED ASSETS</b>							
<b>Other Assets</b>							
Motor Vehicles	0001J	31-May-16	397 943	-	(140 847)	257 095	362 144
Motor Vehicles	0002H	31-May-16	131 141	-	(46 416)	84 725	119 344
Motor Vehicles	0003E	31-May-16	165 162	-	(58 457)	106 705	150 304
Motor Vehicles	0004B	31-May-16	299 046	-	(105 844)	193 202	272 144
Motor Vehicles	0005A	31-May-16	233 994	-	(82 820)	151 174	186 793
<b>TOTALS</b>			<b>1 227 286</b>	<b>-</b>	<b>(434 384)</b>	<b>792 902</b>	<b>1 090 729</b>

**THE BIG 5 FALSE BAY MUNICIPALITY**  
**ANALYSES OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2014**

**APPENDIX B**

	Cost / Revaluation					Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Disposals/ Written Off	Transfers	Closing Balance	Opening Balance	Current Year Impairment / Amortisation	Current Year Depreciation	Closing Balance	
<b>Land and Buildings</b>										
Land	24 340 400	-	-	-	24 340 400	-	-	-	-	24 340 400
Buildings	41 274 489	280 031	-	6 624 561	48 179 081	(4 446 985)	-	(1 411 147)	(5 858 132)	42 320 949
	<b>65 614 889</b>	<b>280 031</b>	<b>-</b>		<b>72 519 481</b>	<b>(4 446 985)</b>	<b>-</b>	<b>(1 411 147)</b>	<b>(5 858 132)</b>	<b>66 661 349</b>
<b>Infrastructure</b>										
Roads	27 316 336	-	-		27 316 336	(5 510 032)		(1 204 942)	(6 714 974)	20 601 362
	<b>27 316 336</b>	<b>-</b>	<b>-</b>		<b>27 316 336</b>	<b>(5 510 032)</b>	<b>-</b>	<b>(1 204 942)</b>	<b>(6 714 974)</b>	<b>20 601 362</b>
<b>Community Assets</b>										
Assets under construction	15 353 906	8 315 502	-	(6 624 561)	17 044 847	-	-	-	-	17 044 847
Other Assets	8 000	-	-		8 000	(2 934)	-	(267)	(3 201)	4 799
	<b>15 361 906</b>	<b>8 315 502</b>	<b>-</b>		<b>17 052 847</b>	<b>(2 934)</b>	<b>-</b>	<b>(267)</b>	<b>(3 201)</b>	<b>17 049 646</b>
<b>Intangible Assets</b>										
Computer Software, Other	533 599	5 100	(594)		538 105	(360 099)	(87 582)	-	(447 681)	90 424
	<b>533 599</b>	<b>5 100</b>	<b>(594)</b>		<b>538 105</b>	<b>(360 099)</b>	<b>(87 582)</b>	<b>-</b>	<b>(447 681)</b>	<b>90 424</b>
<b>Other Assets</b>										
Furniture and Fittings	332 588	8 009	(6 854)	-	333 743	(167 995)	-	(45 790)	(213 785)	119 958
Motor Vehicles	2 847 495	-	-	-	2 847 495	(1 357 343)	-	(253 260)	(1 610 603)	1 236 892
Computers	830 912	141 998	(2 826)	-	970 084	(492 822)	(123)	(120 012)	(612 957)	357 127
Office Equipments	1 059 183	45 793	(6 737)	-	1 098 239	(710 175)	-	(118 550)	(828 725)	269 514
	<b>5 070 178</b>	<b>195 800</b>	<b>(16 417)</b>		<b>5 249 561</b>	<b>(2 728 335)</b>	<b>(123)</b>	<b>(537 612)</b>	<b>(3 266 070)</b>	<b>1 983 491</b>
<b>TOTAL</b>	<b>113 896 908</b>	<b>8 796 433</b>	<b>(17 011)</b>		<b>122 676 330</b>	<b>(13 048 385)</b>	<b>(87 705)</b>	<b>(3 153 968)</b>	<b>(16 290 058)</b>	<b>106 386 272</b>

# THE BIG 5 FALSE BAY MUNICIPALITY

## SEGMENTAL ANALYSES OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2014

### APPENDIX C

SEGMENTS	COST				Accumulated Depreciation				Carrying Value
	Balance 30 June 2013	Additions	Disposals/ Write Off	Balance 30 June 2014	Balance 30 June 2013	Additions	Write Off/ Impairment	Balance 30 June 2014	
Executive and Council	24 340 400	-	-	24 340 400	-	-	-	-	24 340 400
Finance & Admin	4 737 590	480 931	(17 011)	5 201 510	2 560 340	491 822	123	3 052 164	2 149 346
Technical, Planning & Development	42 670 242	8 315 502	-	50 985 744	5 510 032	1 229 637	-	6 739 669	44 246 075
Community & Social Services	41 282 489	-	-	41 282 489	4 449 919	1 411 414	-	5 861 333	35 421 156
Library	753 803	-	-	753 803	454 482	87 705	-	542 187	211 616
Corporate & Human Resources	112 384	-	-	112 384	73 612	21 095	-	94 707	17 677
	<b>113 896 908</b>	<b>8 796 433</b>	<b>(17 011)</b>	<b>122 676 330</b>	<b>13 048 385</b>	<b>3 241 673</b>	<b>123</b>	<b>16 290 060</b>	<b>106 386 270</b>

**THE BIG 5 FALSE BAY MUNICIPALITY**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED**

**APPENDIX D**

<b>2013 Actual Income</b>	<b>2013 Actual Expenditure</b>	<b>2013 Surplus / (Deficit)</b>	<b>SEGMENTS</b>	<b>2014 Actual Income</b>	<b>2014 Actual Expenditure</b>	<b>2014 Surplus / (Deficit)</b>
<b>R</b>	<b>R</b>	<b>R</b>		<b>R</b>	<b>R</b>	<b>R</b>
14 940 999	13 090 884	1 850 115	Executive & Council	11 682 112	11 985 660	(303 548)
10 416 251	8 152 046	2 264 205	Finance & Administration	15 443 633	9 372 529	6 071 104
18 155	4 467 382	(4 449 228)	Corporate & Human Resources	36 104	4 320 980	(4 284 876)
12 867 254	1 664 484	11 202 770	Technical and Planning	14 223 890	6 977 959	7 245 931
-	3 167 139	(3 167 139)	Community & Social Services	9 963 275	8 887 809	1 075 466
854 770	3 167 139	(2 312 368)	Library Services	630 000	630 000	-
<b>39 097 429</b>	<b>33 709 074</b>	<b>5 388 355</b>	<b>Sub Total</b>	<b>51 979 014</b>	<b>42 174 937</b>	<b>9 804 077</b>



**THE BIG 5 FALSE BAY MUNICIPALITY**  
**DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003**

**APPENDIX E**

Name of Grants	Name of organ of state	Quarterly Receipts				Quarterly Expenditure				Reason for delayed/withholding of funds	Did the municipality comply with the grant conditions in terms of grant framework	Reasons for non-compliance
		Sept	Dec	March	June	Sept	Dec	March	June		Yes/No	
Equitable Share Grant	National Treasury	7 198 000	5 758 000	4 319 000	-	-	-	-	-		Yes	
Municipal Infrastructure Grant	COGTA	4 548 000	3 089 000	3 288 000	-	3 396 570	2 293 281	1 258 704	2 569 500		Yes	
Financial Management Grant	National Treasury	1 650 000	-	-	-	565 911	418 072	391 566	274 451		Yes	
Municipal Systems Improvement Grant	COGTA	890 000	-	-	-	219 000	408 950	262 050	-		Yes	
Intergrated evelopment Plan Grant	COGTA	200 000	-		-	-	-	57 036	-		Yes	
Library Provincialisation Grant	Art & Culture	378 000	-	252 000	-	112 781	153 528	136 767	226 924		Yes	
		<b>14 864 000</b>	<b>8 847 000</b>	<b>7 859 000</b>	<b>-</b>	<b>4 294 262</b>	<b>3 273 831</b>	<b>2 106 123</b>	<b>3 070 875</b>			

**The Big Five False Bay Municipality**  
**Statement of Comparison of Budget and Actual Amounts**  
**APPENDIX F**

Figures in Rand	Approved Budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Comments
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	1 303 000	169 000	1 472 000	1 368 236	(103 764)	
Rental of facilities and equipment	100 000	-	100 000	70 921	(29 079)	Decrease in the use of municipal amenities by communities
Other income	200 000	(100 000)	100 000	147 886	47 886	Unexpected increase in other revenue from community
Interest received - investment	200 000	(100 000)	100 000	376 773	276 773	unexpected increase in interest generation
<b>Total Revenue from exchange transaction</b>	<b>1 803 000</b>	<b>(31 000)</b>	<b>1 772 000</b>	<b>1 963 816</b>	<b>191 816</b>	
Revenue from non - exchange transactions						
Taxation revenue						
Property rates	6 829 000	2 330 000	9 159 000	9 109 533	(49 467)	
Property rates - penalties imposed	700 000	-	700 000	865 823	165 823	Increase in debtors caused the increase in interest charged
Government grants and subsidies	25 645 000	(5 000 000)	20 645 000	30 020 092	9 375 092	Revenue recognised from MIG meet recognition criteria
Land sale	4 200 000	(400 000)	3 800 000	-	(3 800 000)	Unexpected delays in the transfer of land
Fines	3 600 000	(1 750 000)	1 850 000	10 019 750	8 169 750	Full implementation of Grap 23
<b>Total Revenue from non - exchange transaction</b>	<b>40 974 000</b>	<b>(4 820 000)</b>	<b>36 154 000</b>	<b>50 015 198</b>	<b>13 861 198</b>	
Total revenue from exchange transaction'	1 803 000	(31 000)	1 772 000	1 963 816	191 816	
Total Revenue from non - exchange transaction'	40 974 000	(4 820 000)	36 154 000	50 015 198	13 861 198	
<b>Total revenue</b>	<b>42 777 000</b>	<b>(4 851 000)</b>	<b>37 926 000</b>	<b>51 979 014</b>	<b>14 053 014</b>	
<b>Expenditure</b>						
Employee related costs	(14 333 000)	534 000	-13 799 000	(12 578 041)	1 220 959	Delays in the filling of budgeted vacant position
Remuneration of councillors	(1 646 000)	(12 000)	-1 658 000	(1 707 472)	(49 472)	Gazetted salaries of Chairperson of Section 79 committee
Depreciation and amortisation	(3 000 000)	-	-3 000 000	(3 241 550)	(241 550)	Transfers from WIP to PPE- not budgeted for
Impairment loss	-	-	0	(123)	(123)	Not included in the Budget
Finance costs	(300 000)	189 000	-111 000	(608 966)	(497 966)	Landfill Site (Discounting Factor)
Debt impairment	(3 500 000)	-	-3 500 000	(6 136 826)	(2 636 826)	Full implementation of Grap 23
Repairs and maintenance	(1 350 000)	300 000	-1 050 000	(133 150)	916 850	Some repairs were done by other spheres of Government
Contracted Services	(11 272 000)	4 730 000	-6 542 000	(881 889)	5 660 111	Some services were not contracted
Conditional Grant (operational)	-	-	0	(3 857 172)	(3 857 172)	Budget was distributed to other line items
General Expenses	(7 115 000)	(1 050 000)	-8 165 000	(13 029 748)	(4 864 748)	Other expenditures were budgeted in contracted services
<b>Total Expenditure</b>	<b>(42 516 000)</b>	<b>4 691 000</b>	<b>-37 825 000</b>	<b>(42 174 937)</b>	<b>(4 349 937)</b>	
<b>Surplus for the year</b>	<b>261 000</b>	<b>(160 000)</b>	<b>101 000</b>	<b>9 804 077</b>	<b>9 703 077</b>	

**The Big 5 False Bay Municipality**  
**Annual Financial Statement for the year ended 30 June 2014**  
**Statement of Comparison of Budget and Actual Amounts**

Figures in Rand	Approved Budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Comments
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Receivables from exchange transactions	1 154 000	-	1 154 000	90 753	(1 063 247)	Budget made on non-reclassified amount
Receivables from Non-exchange transactions				4 597 164	4 597 164	GRAP 23 implementation
VAT receivable	-		-	889 504	889 504	Year end creditors, due to SARS on cash bases
Consumer debtors	5 800 000	1 224 000	7 024 000	10 099 140	3 075 140	Non-payment by debtors, strengthening of credit control outsourced in 14/15 FY
Cash and cash equivalents	2 416 000	(643 000)	1 773 000	558 094	(1 214 906)	Non-payment by debtors resulted in decrease in cash
	<b>9 370 000</b>	<b>581 000</b>	<b>9 951 000</b>	<b>16 234 655</b>	<b>6 283 655</b>	
<b>Non-Current Assets</b>			-		-	
Property, plant and equipment	102 666 000	6 109 000	108 775 000	106 295 847	(2 479 153)	Budget prepared before preparation of fixed asset register
Intangible assets	257 000	(84 000)	173 000	90 423	(82 577)	Budget prepared before preparation of fixed asset register
	<b>102 923 000</b>	<b>6 025 000</b>	<b>108 948 000</b>	<b>106 386 270</b>	<b>(2 561 730)</b>	
Current Assets	9 370 000	581 000	9 951 000	16 234 655	6 283 655	
Non-Current Assets	102 923 000	6 025 000	108 948 000	106 386 270	(2 561 730)	
<b>Total Assets</b>	<b>112 293 000</b>	<b>6 606 000</b>	<b>118 899 000</b>	<b>122 620 925</b>	<b>3 721 925</b>	
<b>Liabilities</b>			-		-	
<b>Current Liabilities</b>			-		-	
Finance lease obligation			-	548 826	548 826	All was included in non provisions in the Budgeted
Payables from exchange transactions	4 806 000	6 540 000	11 346 000	10 098 823	(1 247 177)	Reduction of creditors, 2016 strategy
Payables from non-exchange transactions				213 115	213 115	This was included with exchange transaction in budget
Unspent Conditional Grants				1 549 908	1 549 908	Unexpected delay in the project implementation (road)
Bank Overdraft				1 912 628	1 912 628	Decrease in creditors resulted in the outflow of Cash
Provisions	2 309 000	(1 938 000)	371 000	-	(371 000)	Other provision classified under long term
	<b>7 115 000</b>	<b>4 602 000</b>	<b>11 717 000</b>	<b>14 323 300</b>	<b>2 606 300</b>	
Non-Current Liabilities			-		-	
Finance lease obligation			-	244 076	244 076	This was included with provisions in Budget
Provisions	2 283 000	1 713 000	3 996 000	4 737 925	741 925	Increase in landfill site provisions.
	<b>2 283 000</b>	<b>1 713 000</b>	<b>3 996 000</b>	<b>4 982 001</b>	<b>986 001</b>	
Total Liabilities	<b>9 398 000</b>	<b>6 315 000</b>	<b>15 713 000</b>	<b>19 305 301</b>	<b>3 592 301</b>	
Assets	112 293 000	6 606 000	118 899 000	122 620 925	3 721 925	
Liabilities	9 398 000	6 315 000	15 713 000	19 305 301	3 592 301	
Net Assets	102 895 000	291 000	103 186 000	103 315 624	129 624	
Reserves			-		-	
Accumulated surplus	102 895 000	291 000	103 186 000	103 315 624	129 624	